GTrade
Module 1

WHAT IS SHORT TERM TRADING?

- Trading is the process of buying and selling financial assets with the aim of making a profit.
- Financial assets include :
    - Stocks
    - Commodities
    - Indices, Bonds (Group of stocks)

- Financial assets allow us to allocate capital efficiently. This is not always the case because of financial crisis.
- Players play a crucial role in determining the price of assets based on supply and demand.
- The advantage for investors is the ease with which they can enter and exit financial markets.
- Where can we buy these different financial products?
    - Stock exchanges globally (New York Stock Exchange, Euronext)

- These places serve as a place where these transactions or trades can take place in an organized or regulated manner.
- It also allows us to take advantage of short-term price fluctuations.

Derivatives

- Derivatives are financial instruments whose value is derived from an underlying asset.
- Derivatives serve several purposes including hedging against risk and speculation.
- The main derivative products are options; swaps, and futures contracts.
- The nature of a futures contract is an agreement to buy or sell an asset at a fixed price in advance, at a specified future date.
- This allows parties to hedge against price fluctuations or speculate on future price movements.
- Brokers act as an intermediary allowing traders to access the market.
- Choosing a regulated broker is crucial to ensure the security and integrity of your funds and trading operations.

- Debt, or bonds, allows government entities or businesses to raise funds to finance their activities by issuing bonds.
- Investors who buy these bonds lend money to the issuer in exchange for a fixed interest payment and potentially the principal repayment of a future debt.
- Nothing prevents these investors from reselling this debt on a stock exchange if there are interested buyers.
- Characteristics of a bond include duration, interest rate or coupons, frequency of interest payments, and issuer credits.
- Major debt markets include government bonds, municipal bonds, and corporate bonds.
- The SP500 is an index of the 500 Largest companies listed on the US stock exchanges and it is often used as a barometer of US economic health.
- These indices are essential for investors because they provide a benchmark to compare the performance of their own investments and can also be traded via derivatives.
- Trading is a complex activity that requires a thorough understanding of different markets and financial instruments.

THE UTILITY OF FINANCIAL MARKETS AND THE DIFFERENCE BETWEEN THE PRIMARY AND SECONDARY MARKET

- Financial markets play a crucial role in the global economy by facilitating the financing of business and governments, while providing individuals and institutions with a place to invest and grow their savings.
- It is a dynamic system where supply and demand meet on the stock exchanges, causing prices to fluctuate.
- Investing focuses more on creating value over the long term.
- Trading seeks profit from short-term movements in the market.
- The trader takes advantage of volatility.
- Volatility can be due to economic, political, or even psychological factors, influencing investor behavior.

ROSHAN MANSUKHANI recommends books by **GEORGE SOROS** such as *THE ALCHEMY OF FINANCE* OR *THE TRUTH ABOUT THE FINANCIAL CRISIS* where he discusses the reflexivity of the markets (The belief of market participants that influence the latter). Reinforcing certain ideas that are not founded.

- Their expectations contribute to the formation of prices, which in turn, shape expectations.
- The nature of trading involves more frequent transactions than traditional investing.
- To evaluate trading opportunities, traders often rely on systems that include graphical and statistical analysis.
- Traders use technical indicators, chart patterns and fundamental analysis, including tracking news events that can influence prices.
- The goal is to identify short-term trends that can be exploited to make profits.
- Short-term trading requires responsiveness and rapid adaptation to new information and market changes.
- Traders must be able to quickly assess risk, effectively manage (multiple) open positions, and use and adapt strategies according to market volatility and their trading objectives.
- The financial markets offer opportunities to both long-term investors and short-term traders, each with their own strategies, objectives and methods of analysis.
- Understanding the difference between these approaches is essential to developing a coherent and effective trading plan.
- Primary and secondary markets play complementary roles in the economy.

- The primary market is where new financial products, such as stocks and bonds, are first issued and sold.
- The primary market serves as a platform for companies, governments and other entities seeking to raise funds directly from investors.
- By issuing shares or bonds, borrowers will obtain the capital needed to finance new projects, thus contributing to the financing of the real economy.
- The role of the primary market is to facilitate the meeting between the financing needs of borrowers and the investment willingness of lenders.
- It is a vital process for economic growth and development.
- The secondary market is where already issued financial securities are traded between investors.
- This means that these securities are no longer sold by the entity that issued them, but by investors who wish to resell them.
- This market is crucial because it offers liquidity and flexibility to investors, allowing them to buy and resell existing financial securities.
- Liquidity is a key component of the secondary market because it allows investors to quickly convert their assets into cash.
- As a short-term trader, you are probably not going to interact with primary markets.

THE MAIN FINANCIAL MARKETS

Forex

- Forex is the first and the largest financial market.
- Forex is crucial for international businesses and for investors who need to convert one currency to another.
- There are futures contracts for currencies that are quoted from Sunday to Friday.
- Most currency transactions take place outside of an exchange.

Stock Market

- Stock market allows you to buy ownership shares in companies.
- The stock market is a vital market for companies looking to raise capital and for investors looking to acquire a stake in these companies to benefit from future growth and profits.

Bonds

- Bonds are the most important market.
- Bonds involve swaps of debt from issuers, such as governments or corporations.
- Government bonds can serve as indicators of a country’s economic health and how major investors view the economic outlook 3-6 months from now.

Money Market

- The money market is linked to the bond market.
- The money market specializes in very short-term debt instruments, such as:
    - Treasury bills
    - Certificates of deposits
    - Short-term investments

- The money market is used by financial institutions and businesses to manage their short-term liquidity.

Commodities

- Commodities allows investors to buy and sell physical products or derivatives such as:
    - Gold
    - Oil
    - Wheat

- Commodities are crucial for producers and consumers and plays a vital role in managing price risk associated with commodity volatility.

Summary

- Each of these markets plays a unique role in the global economy.
- Correlations in these markets can help experienced traders spot short-term opportunities.
- The high liquidity on the order book of bonds and indices allow us to identify certain configurations and profit from them in the short term compared to commodities and forex.

HOW ARE THE FINANCIAL MARKETS AND THE VARIOUS GLOBAL STOCK EXCHANGED ORGANIZED?

- Organized markets, often called exchanges, are regulated environments where buyers and sellers exchange financial instruments without being in direct contact.
- Organized markets operate according to precise rules and are characterized by three things.
    - The centralization of orders on a marketplace, which facilitates the meeting of supply and demand and contributes to the transparent determination of prices.
    - The product delivery systems, because once bought or sold, the trader must deliver the products and it is up to the exchange to ensure that the operations run smoothly. These systems ensure that securities and funds change hands as intended and following a transaction.
    - There is a clearing house that sits between the two parties to a transaction and ensures that if one defaults, the clearing house will proceed to deliver the products or funds.

- OTC financial markets are different because they are characterized by direct transactions between parties.
- In this case, transactions take place directly between financial intermediaries, such as between a bank and a company, and can be customized according to the specific needs of the parties.
- Derivatives, such as swaps, are often traded on OTC financial markets and not on exchanges.
- Unlike organized markets, OTC transactions offer more flexibility in drafting contracts between two parties, but also potentially more risk, because in the event of default by one party, there is no clearing house to insure the contracts.
- This means that parties must assess and manage the credit risks of their counterparties.
- It is extremely rare for the short-term trader to trade in the OTC markets as they require a fairly large amount of capital.
- Focus on centralized markets in order to profit from short-term price movements.

New York Stock Exchange (NYSE)

- Its main index is the SP500, which is composed of the 500 largest companies listed in the United States.

- The exchange on which derivatives are traded is not the NYSE, but the Chicago Mercantile Exchange (CME).

London Stock Exchange (LSE), Euronext (ENX), Deutsche Boerse (DB)

- In Europe, there is the London Stock Exchange.
- The FTSE100 is the LSE's flagship index, comprising the 100 largest capitalized companies.
- With Brexit, the importance of the LSE has noticeably diminished.
- In Europe, there is also Euronext and Deutsche Boerse.
- On Euronext, you have the CAC40, including the 40 largest French companies, as well as the indices such as the Italian stock market index (MIB).
- On the Deutsche Boerse, you have the DAX40, formerly known as the DAX30, which is the main index of the German stock exchange, representing the 40 largest companies listed in Frankfurt.
- Futures and options contracts for the DAX40, Euro Stoxx 50, German bond markets such as the Bund, the SMI index and Swiss bonds are traded on the Eurex exchange.
- Eurex is a subsidiary of Deutsche Boerse.
- CAC40 futures contracts are traded on Euronext.

Hong Kong Stock Exchange (HSE), Japan Exchange Group (JPX)

- In Asia, the two stock exchanges that have been followed for the past 30 years are the Hong Kong Stock Exchange (HSE), with its main index being the Hang Seng, and the Japan Exchange Group (JPX), with its main index being the NIKKEI225.
- China's global growth has made Chinese capital markets attractive to both local and foreign investors, and stock exchanges such as those in Shanghai and Shenzhen will need to be monitored in the coming years.
- It is important to know that each of these indices is an essential tool for investors and analysts, because in a way, they offer an overview of the performance of financial markets in their respective regions.

SPECULATION ON THE FINANCIAL MARKETS

- Speculation itself is very simple since you trade financial products on the stock markets.
- The trader will make purchases or sales following a certain analysis, taking the risk that the trade will materialize or not.
- It is crucial to understand that speculating on the financial markets involves risks.
- The market is unpredictable, and without proper knowledge and strategies, it is easy to lose your capital.
- Speculating is observing and thinking about the evolution of the financial asset you are trading.
- It may seem simple at first but it is way more complex.
- The first step is observation. You will need to carefully observe and reflect on the evolution of financial assets, either with technical tools or by making calculations to develop economic or financial models.
- You will also need to be able to read market signals in real time and understand how various economic, political and social factors can influence asset prices.
- If you are a beginner trader; discipline, patience, and continuous learning are your best allies in this environment.
- Short-term speculation, whether bullish or bearish, requires a thorough understanding of a few methods like technical analysis, fundamental analysis and order book.
- Technical analysis is the study of price charts. Normally, it involves the use of technical indicators and chart patterns to predict future price movements.
- Technical analysis has been used in the markets for 60 years, and a huge number of indicators have been developed.
- It is not recommended for beginner traders to use technical indicators because their application is likely to lead to random trades.
- More experienced traders have learned to adapt these technical indicators to their trading strategy.
- As for fundamental analysis, this method focuses on economic and financial factors and other qualitative information that can affect the value of an investment. It is particularly relevant for long-term decisions.
- For us short-term traders, fundamental analysis is crucial for understanding financial market contexts and studying correlations.
- We will not build complex models, as we will focus on price and volume action.
- Good fundamental analysis and the demand and supply of a product will reduce errors and give you more confidence.

- Most importantly for a short-term trader is the order book. The order book lists all buy and sell orders and can provide valuable insights into behavior of other traders and the potential direction the market might take.
- Understanding order flow will increase your chances of success.
- Be careful, this is not the holy grail. There are many random events that occur in the markets. Those who focus only on order flow will miss valuable information that has not yet been priced in by the markets.
- The existence of financial market authorities is essential in order to regulate exchanges between all parties in the system.
    - Switzerland (FINMA)
    - United States (SEC)
    - United Kingdom (FCA)
    - France (AMF)
- The SEC in the United States plays a crucial role in limiting excessive leverage and preventing systematic risks.
- These regulators can prohibit certain types of derivative products deemed too risky.
- These authorities also issue licenses to companies and professionals in the financial sector, thus ensuring that only competent players can operate.
- This is an additional guarantee for you as a trader, that the market you are speculating on is monitored and regulated.
- I strongly encourage you to familiarize yourself with the rules and regulations in your area, and understand the role of regulatory authorities. This will help navigate the markets with greater confidence and security.

The Mechanics of Prices

- What is the mechanism by which traders or investors move prices? It all starts with information that travels at the speed of light.
- Traders, investors, and cryptocurrency enthusiasts use this information to make decisions. Information, whether public or private, official or unofficial, profoundly influences the actions of traders and investors.
- The sources of information are varied, ranging from news sites to analysis and valuation in order to deepen the understanding of the fundamentals that influence the market.
- These decisions, collectively, influence the price of assets in the market, therefore, the price at which assets are traded is a direct reflection of the information assimilated by the markets. It is a result of millions of thoughts and calculations made by market participants around the world.
- We will assume that markets are constantly pricing in new information and that they are evaluating and betting on potential scenarios that could occur in the future.
- At the same time, trading volumes increase or decrease depending on the activity of buyers and sellers.

- High volume can indicate strong or uncertainty, while low volume can signal a period of consolidation or disinterest.
- Understanding the pattern of these interactions is essential for anyone involved in financial speculation.
- Information leads to action. Action determines price, and price coupled with volume gives us insight into the state of the market.
- Let us imagine these elements as a continuous flow, a loop of interconnection. Information causes reactions. These reactions for trends and these trends are expressed through price and volume.
- Understanding market positioning is as vital as interpreting current information.
- As a speculator, your role is to capture this information, interpret it correctly, and adjust your trading accordingly to profit from future market movements. Keep this pattern in mind during your next trading session.
- Ask yourself questions about the quality of this information you receive, how it might influence the markets, and the possible reactions of other market participants.
- For example, I always ask myself the following question when I read headlines that move the markets: Why am I receiving this information now? Has this information already been evaluated by the market?
- It is by mastering these dynamics that you can hope to gain an advantage in the market.
- You can compare short-term trading to card games where your hand, your opponents' hands, and the community cards influence your decisions.
- In conclusion, speculation in the financial markets is an art that requires discipline, education and rigorous analysis. It involves understanding news cycles thoroughly to price movements, market reaction and trading volume.
- By mastering these elements, you will be able to develop an informed trading strategy. Position yourself effectively and, hopefully, make a profit.

WHAT IS A DERIVATIVE PRODUCT?

- A derivative product is, above all, a contract, a promise between two parties who agree on a financial exchange based on the price of the underlying asset.
- This underlying term is crucial because it represents the reference asset, whether it is a stock, a stock index, an interest rate, or a commodity.
- The name derivative product comes from the fact that the value of these financial products derives from or depends on the evolution of the price of the underlying asset.
- Let us say you hold a derivative linked to the price of oil. If the price of oil on the market, cash or spot, rises or falls, the value of your derivative fluctuates accordingly.
- Cash market, also known as spot market is where we can buy and sell for immediate delivery.
- The original price of derivatives was to provide protection, hedging, or coverage tools for investors against price fluctuations, such as changes in commodity costs.
- A farmer might use derivatives to hedge against the risk of exchange rate fluctuations or imagine an airline that risks an increase in the price of oil, you fix the price of oil 12 months out from today.
- With the financialization of markets, but also with the economy, derivative products have evolved to cover a greater variety of financial assets.
- Over the past 30 years. Derivatives have become instruments used not only for hedging risks, but also for speculation.
- Speculation involves the buying and selling of derivatives with the aim of making a profit from changes in the price of the underlying asset, without the intention of owning the asset itself.
- This was also possible because futures contracts offer leverage, and this is one of the advantages of derivatives over trading in cash markets as it allows you to multiply your potential gains.
- Speculation increases the volumes traded and the complexity of financial markets.
- In some cases, it may be more convenient or tax-efficient to use a derivative rather than dealing in the underlying asset itself.
- A stock dividend is often taxed more heavily in one country than in another, but with a derivative product, you can avoid this taxation because with futures contracts, there are no dividend payments, which does not generate taxable income, but only capital gains.
- Derivative products make it easier to invest in the underlying asset.
- Imagine you want to track the DAX40 stock index. Instead of buying all the stocks that make up the DAX40 (40 different companies), a trader can buy a

single derivative that tracks the index's performance, which exposes the trader to the index's performance in a single trade, as a trader or market participant.

- We must therefore be educated in the use of derivatives, whether for hedging or for speculation, derivatives provide liquidity to financial markets, helping investors and traders manage their risks and with price discovery.

THE DIFFERENT DERIVATIVE PRODUCTS

- Each of these instruments has unique characteristics and meets specific needs of investors and speculators.
- First we have futures contracts. These are standard, exchange-traded agreements that obligate the buyer to buy and the sellers to sell an asset at a pre-set price and on a specific future date.
- They are often used in commodity trading to lock in a price, reducing the risk of the price fluctuations.
- Second, we have swap contracts. These are contracts by which two parties exchange financial flows according to predefined terms over a given period of time.
- Interest rate swaps, for example, which are widely used and traded by investment banks, allow a fixed interest rate to be exchanged for a variable rate, or vice versa.
- Let us take the example of a company and imagine that its financing is linked to variable interest rates and that it wishes to pay fixed interest rates. The company could enter into an agreement with an investment bank to swap its payments from floating interest rates to fixed interest rated, and the investment bank would then take the risk of interest rates rising if that eventually occurred.
- Swaps are risk management tools that are widely used in the financial world and are often also used by pension funds.
- Third, we have CFDs (Contracts for Difference), which allows traders to speculate on the price movements of an asset, such as gold or oil, or a stock index without actually owning it.
- As with futures contracts, the profit or loss is the difference between the price at the beginning of the contract and the price at its closing.
- CFDs are illegal in the United States because they are OTC (Over the Counter) products.
- When you trade CFDs, your counterparty is the brokers. It is the brokers who offer you the prices and give you the leverage.
- This leverage is often very high compared to the initial capital.
- One of the advantages of CFDs is that traders can hold positions overnight with very little capital, which is not possible with futures contracts.
- You also have options, which are contracts that give the right, but not the obligation, to buy or sell an asset, that is, to buy or sell the underlying assets at a specific price, called the strike price, before a specified date, called expiration.
- To bet on the rise, we will buy options called calls, and to bet on the fall, we will buy options called puts.

- You can also sell calls and puts, that is, short sales, but this requires training and some experience. Options are complex, require a good knowledge of mathematics and can be structured in various ways offering great flexibility.
- Finally, we have warrants and turbos, which are financial instruments that also give the right, but not the obligation, to buy or sell an asset at a predetermined price, like the options described above, but with specific characteristics and conditions. Warrants are often issued by companies themselves.
- There is a wide range of derivative products designed to meet your needs. These derivative instruments are sophisticated tools used for various purposes.

FUTURES CONTRACTS

- A futures contract is similar to an OTC contract, but no money changes hands in advance except for the deposit of an original margin.
- This margin is crucial as it serves as a guarantee to reduce the risk of default by the counterparty.
- Futures contracts are standardized contracts, meaning that a trader at UBS (equity trading platform) will buy and sell the same contract as you.
- They are traded on regulated exchanges, such as EUREX, or the CME, which provides additional security by limiting counterparty risk.
- The exchange acts as a central counterparty to each trade, thus guaranteeing execution and delivery according to the term of the contract.
- The details of a futures contract are precisely defined by the exchange such as the asset on which the contract is based, whether it is a commodity, a stock, a stock index, or government debt, and the maturity (date on which the contract expires or becomes null and void). By this date, contractual obligations must be fulfilled.
- Different products have different expiry dates. Example, if we deal with oil futures contracts, we will have to be careful because there are expiry dates every month. If you trade gold futures, the expiry dates are every two months. For bonds and indices, maturities are every three months.
- The period during which traders switch expiries is known as rollover.
- <u>Physical delivery:</u> the date on which the underlying asset must be delivered by the holder
- If you have bought a futures contract, for example; oil and the expiry date has passed, you will be delivered the underlying assets (the barrels of oil).
- If you have sold an oil futures contract and the expiration date has passed, you are obligated to deliver the goods.
- The trader who is short in the markets must always deliver the products.
- There is a cash settlement. For some contracts, such as those on the stock indices, physical delivery is not practical. Imagine you had to deliver 500 different stocks that make up the SP500?
- <u>Cash settlement:</u> settlement made in cash by crediting or debiting the amount corresponding to the difference between the contact price and the price of the underlying asset at maturity
- <u>Margin:</u> the amount of funds that the trader must deposit to open and maintain a position on a futures contract
- Margin serves as collateral to cover potential losses and thus reduces the risk of non-payment.
- It is usually expressed as a percentage of the total contract value.
- Be careful with margins, as they are adjusted daily based on market volatility.

- It is essential to understand these concepts and to closely monitor the positions you hold, taking into account the possibility of variation in margins and physical delivery or cash settlement obligations at maturity.
- Typically, as a short-term trader, you should not have to deliver any products or make a cash settlement at expiration because you will have already started trading in the following futures contracts before expiration.

DEBT MARKETS (BONDS)

- Bonds are a key pillar of global finance and probably the asset that theoretically sets the price of all other financial assets.
- The bond market, often referred to as the fixed income market or credit market, represents the universe of debt security issues.
- It’s a market where debt is traded, bought, or sold, allowing borrowers to finance their businesses, investors to benefit from a potentially stable income, and short-term traders like us to profit from fluctuations throughout the day.
- To better understand this market, it is essential to understand the different categories of bonds available.
- Government bonds are securities issued by national governments. The Swiss, German, French, English, Canadian, and American debt markets, for example, are often considered the safest since they are guaranteed by sovereign entities.
- They are used to finance public spending and can be seen as a reflection of a country’s economic activity.
- Corporate bonds are normally riskier than their government counterparts. Some investors consider the repayment of corporate debt, such as Apple, Google, or Nestle, safer than repayment of the debt of certain countries, particularly developing countries or countries like those in southern Europe.
- Corporate bonds are issued by companies for the purpose of raising funds for investments or financing their operations.
- As a portfolio manager, lending money to these entities can offer higher returns, but it comes with a higher level of risk, as the company’s creditworthiness can vary greatly.
- Municipal bonds are issued by local or regional entities such as cities or states. They finance public projects such as construction of schools or roads.
- The notable advantage for investors is that the interest relieved is often exempt from federal taxes, and sometimes even state taxes.
- Mortgage bonds are linked to real estate loans. When you invest in these bonds, you are actually financing a pool of mortgage loans. They present a level of risk which depends on the quality of the borrower’s credit.
- In the United States, there is a very liquid market for these products, known as MBS (Mortgage-Backed Securities). In Europe, this market still needs to develop.
- Each of these types of bonds plays a specific role in building a diversified portfolio.
- Government bonds can be seen as a hook, providing stability and security.
- Corporate bonds introduce a balance between risk and return, suitable for those looking to boost their portfolio.

- Municipal bonds offer tax advantages.
- Mortgage bonds allow you to invest in real estate without having to purchase properties directly.

CHARACTERISTICS OF A BOND

- First, each bond offers its holders an interest, often called a “coupon.” The coupon can be fixed (offering an interest rate that does not vary throughout the life of a bond) or floating (adjusting periodically based on a reference rate) such as ESTER in Europe, SARON in Switzerland, SONIA in England, or SOFR in the United States. These rates are part of the interbank system.
- There are also inflation-linked bonds, known as TIPS. Treasury Inflation-Protected Securities, designed to protect investors against loss of purchasing power by adjusting coupon payments based on inflation rates.
- These are increasingly being addressed since the increase of inflation in 2022.
- The notion of maturity is essential. It corresponds to the life of the bond; from the maturity date, when interest begins to accumulate, until the last payment.
- Maturity can influence the bond’s sensitivity to interest rate changes.
- The yield of a bond is also a key concept. This is an overall interest rate, but not at the interest rate mentioned earlier which was called the coupon. The yield is the rate that the bond will generate until maturity.
- The yield takes into account not only the coupon, but also any capital gains or losses realized if the bond is purchased at a price other than its face value.
- The nominal price of a bond is always 100.
- Between the maturity date and maturity, the price can fluctuate above and below 100.
- The advantage of trading in the bond market is that the return on investment can be calculated in advance.
- Finally, it is important to recognize the value of a bond. The price moves inversely to these rates of return. This is called the price-performance relationship.
- If the yield increases, the value of existing bond markets decreases because new investors can get better rates in the market.
- Conversely, if the yield rate falls, the value of existing bonds increases, as they become more attractive relative to new issues that offer lower yields.
- If this inverse relationship is fundamental, and it is the reason why no one talked about a crash in the bond market when it fell by more than 50% in 2022.
- In a period of rising rates, it may be wise to favor bonds with shorter maturities to reduce the risk of capital losses.
- Conversely, in periods of falling rates, longer maturities can be advantageous as they allow for higher rates to vary.
- Expected return is the average return an investor can expect over a given period, while volatility measures how much those returns fluctuate over time.

- These two concepts are crucial for assessing risk and return potential on investment.
- Money market bonds generally offer low expected returns, but also low volatility. This makes it a preferred choice for cautious investors looking to preserve their capital.
- Euro funds, often made up of government bonds, also offer increased security, but limited potential gains.
- When we look at investment grade bonds, often corporate debt, we see an increase in expected returns relative to money markets or government bonds, but with more moderate volatility.
- Real estate, represented by investments such as real estate investment companies (SCPI), often offers a higher return than traditional bonds, but with greater volatility due to fluctuations in the real estate market.
- High yield bonds are issued by companies with higher credit risk. They promise higher returns to compensate for these additional risks, but they also exhibit significant volatility, increasing their investment risk level.
- Stocks, large cap, small cap, penny stocks where volatility and expected returns increase dramatically.
- Finally, with the most risk are financial derivative products which due to their risk profile and leverage, can, when used correctly, allow us to achieve higher profits. Extreme caution should be exercised when using these products as uninformed traders can lose all of their money.

GERMAN DEBT - FUTURES

- The German debt futures contracts are financial instruments that are traded on the EUREX exchange and are classified according to the maturity of the underlying bonds.
- Schatz (symbol FGBS): futures contract on the short-term German debt
- The underlying asset of the Schatz is German debt securities with a maturity of approximately 2 years.
- These contracts are particularly sensitive to short-term interest rate changes and are used by investors to hedge against rate fluctuations or to speculate on changes in monetary policy.
- Bobl (symbol FGBM): futures contract on the medium-term German debt
- The underlying securities have a remaining maturity of 4.5 to 5.5 years.
- These futures contracts are often considered a barometer of the state of the economy in the medium term and are often used to manage interest rate risks associated with this period.
- Bunds (symbol FGBL): bonds for institutional investors and fund managers seeking to hedge against long-term movements in interest rates.
- Buxl (symbol FGBX): futures contract on long-term German debt
- The Bund and Buxl are linked to bonds with a very long duration.
- These futures contracts are available for the March, June, September, and December expiry dates, allowing investors and traders to position themselves throughout the year according to their investment strategies and market expectations.
- The codes for the various products are defined by the stock exchange and include the two characters specifying the maturity and the year.
- For example, the September 2024 maturity of future Bund would have the code FGBLU24.
- I emphasize that the Bund is a good contract to work on. The movements on the order book are not too fast which allows novices time to assimilate the incoming information.
- Working in debt markets also allows us to be in constant contact with the economy as we can follow the economic figures that will influence buyers and sellers.
- The value of a point in this market is 10 euros, which means that each fluctuation of one tick is equivalent to a gain or loss of 10 euros.
- The standard contract value is 100,000 euros, which means that the typical size of a bund contract and the regular trading hours on the EUREX market for Bund futures are from 1:10 am - 10 pm (GMT +1).
- Settlement of these contracts is by physical delivery, which means that the holder of the contract at the maturity actually receives the debt security corresponding to the specification of the contract.

- It is encouraged to visit every website to familiarize yourself with different specifications, not only of the Bund but also of other debt futures markets.
- It is also possible to trade futures contracts on the French and Italian debt under the EUREX.
- These markets are studied by all professional traders. We can also develop correlations between German debt markets and other debt markets in Europe as this is something that is closely monitored by the European central banks.

INDICES

- Indices are more volatile than debt and offer good opportunities when trading in the short-term.
- It is fundamental to understand what an index is.
- A stock index is a measure reflecting the price performance of a group of stocks, for example, the DAX40 index tracks the 40 largest companies listed on the Deutsche Borse.
- Stock indices are essential because they offer investors the opportunity to gain exposure to an entire economy or a specific sector through a single investment position.
- There are different methods for calculating a stock index.
- We primarily distinguish between price indices such as the Dow Jones Industrial average and market indices such as the SP500.
- The price index is calculated from the prices of listed companies and companies with higher prices. More extreme price movements have a greater impact on the index.
- In contrast, the market index is based on the total market capitalization of the included companies, for example, the current share price multiplied by the total number of shares issued. This aggregate is then compared to their market capitalization exert a more significant influence on the index level.
- The distinction between these two types of indices is crucial, as it affects market perception and investment strategy.
- Price indices may be more sensitive to changes in the stock prices of large companies while market indices provide a better representation of the economy as a whole by taking into account the relative size of individual companies.
- Indices are also instruments through which you can invest through index funds or ETFs for example.
- In our exploration of the financial markets, it is important to familiarize ourselves with the major stock indices.
- In Europe, the DAX40 is the benchmark index of the Frankfurt Stock Exchange, tracking the performance of the 40 largest companies listed in Germany.
- The DAX40 is often used to assess the state of the German economy, the largest in Europe. However, with the intervention of central banks, the markets have been disconnected from the real economy.
- It is therefore dangerous to evaluate an economy just from the point of view of the index.
- In the United States, the NASDAQ100 represents another key segment of the market, highlighting the economic value of the 100 largest non-financial companies with an emphasis on the technology sector.

- In Asia, the SSE Composite, and more specifically the SSE50 and SSE180, groups together China's largest companies providing a perspective on the rapid growth of the Chinese economy and its global impact.
- Finally the SP500 is probably the most recognized index globally, tracking the value of 500 of the largest capitalization companies in the United States.
- It is widely considered the most representative indicator of the overall health of the US stock market.
- The top 25 companies represent nearly 46% of the index, therefore a trader should closely follow the top 25 companies and be responsive when they announce their quarterly earnings and unexpected events such as changes in the company's structure.

DAX40

- Eurex code which is FDAX.
- The code is essential to identify the financial products that we are going to trade.
- This is an abbreviation you'll see often, keep it in mind.
- The value of a point in the DAX40 is set at 25 euros.
- The settlement method is in cash, meaning there is no physical delivery of the securities as in the bond market.
- Regular trading hours are 7:10 pm to 4 pm Eastern time, giving you a wide window to place and manage your trades according to European market movements.
- The FDAX contract is a very large contract. Due to its high value, it poses significant risk and is best avoided early in your trading career. Instead there are alternatives such as the Mini-DAX (denoted FDXM) or the Micro-DAX (denoted FDXS).
- The Mini-DAX, the point value is 5 euros, and for the Micro-DAX, the point value is 1 euro.
- They have the same trading hours as the DAX and settle with cash at the end of the term.
- These contracts are smaller, more manageable and better suited to those who are just getting to grips with the dynamics of the stock market.
- It is important to note that the DAX, mini, and micro contracts are very volatile products and are therefore best suited to traders who already have some experience.

FACTORS THAT INFLUENCE THE PRICE OF AN INDEX

- Factors that influence the price are varied and can come from macroeconomic sources, as well as developments within the individual companies that make up the index.
- Let us start with economic news.
- Investor sentiment can be influenced by a multitude of news, including central bank announcements.
- An increasing interest rate can directly influence the valuation of companies, and therefore of indices.
- The sharp decline in markets in 2022 and the first half of 2023 was due to the aggressive rate hikes by central banks.
- Similarly, employment reports or other economic indicators can indicate the direction in which the economy is heading, thereby influencing investor confidence and investment decisions.
- For example, a favorable US jobs report can boost confidence.
- These events have an impact on market volatility, and consequently on the price of indices.
- Now let us move on to the companies' financial results.
- Every quarter, companies reveal their profits and losses.
- Better-than-expected results can propel stocks higher, positively influencing the index. Conversely, unexpected losses can lead to a fall.
- These movements are reflected in the price of indices, which is why traders scrutinize them with the greatest attention.
- Corporate announcements, such as CEO change or a potential merger or acquisition, can also shake up markets.
- These news items often signal strategic changes that can be interpreted as a positive or negative signal by the markets, and therefore affect the price of the indices.
- Finally let us talk about the changes in the composition of the index.
- Weighted indices are particularly sensitive to this type of change.
- Changes in the composition of the indices should be closely monitored.
- When a company is added to a major index, it can lead to increased investment because index funds must buy shares of that company to mirror the index. Conversely, if a company is withdrawn, it may experience significant selling pressure.
- To identify these influences, it is essential to stay informed, analyze data and understand underlying trends.
- This requires constant monitoring and rigorous analysis of available information.
- As traders, our challenge is to stay on top of this information, interpret it correctly, and use it to make informed investment decisions.

- Markets always anticipate different scenarios and we do not all receive the same information at the same time.
- It is therefore up to the trader to decide whether the news has already been taken into account by the markets or whether it has not yet been digested by the markets.
- Until recently, announcements were made through official channels. Today, operators should expect announcements to be made via X or Instagram, as directors and presidents choose to communicate immediately with their followers.
- We have had cases of President Trump or Elon Musk communicating via X and clues that react violently to a tweet.
- A trader must take all these factors into consideration when presenting his ideas using indices.

TRADING IS NOT WHAT YOU THINK

- Covering realities that are not always understood or overlooked when someone is looking to make money trading. Many people have dreams of becoming rich through trading, but there are a few things that are essential to understand.
- First of all, it is important to understand that trading will not make you rich overnight.
- This is a complex and risky area. Trading is a complex, chaotic, and unstructured game.
- Moreover, it is often perceived as a domain reserved for financial geniuses and the world's most powerful computers.
- Note that it is rare to become an elite trader in the long term. The trading game is constantly evolving, with rules, mechanics, and probabilities that are difficult to observe and always in flux.
- Becoming a successful trader over an extended period of time requires a combination of skill, discipline, and often a little luck.
- Many people would like to be a professional athlete but how many boys and girls, out of 500,000, will reach that level? This does not prevent thousands of amateur athletes from having their jobs, practicing sport at a semi-professional level and being paid for it.
- A common misconception is that trading is a zero-sum game, where one trader's gains equals another's losses.
- In reality, if we assume that there is no entry of new participants or, in other words, cash, it is a negative-sum game. Why? You have transaction costs, broker fees, and the possibility of other traders having inside information, known as insider trading, which can make trading even more difficult.
- Understanding these costs is essential to establishing an effective trading strategy.
- For example, transaction costs represent a portion of every trade you make. Additionally, some brokers charge fees for their services.
- In conclusion, to be successful in trading, it is imperative to have a significant advantage.
- How can you develop this edge needed for success?
- First, you need to deepen your understanding of markets and their mechanisms.
- In short-term trading and in this training, our advantage will be learning how to use an order book, understanding the contexts in which they occur and managing risk effectively, ultimately cultivating iron discipline and emotional resilience to remain consistent in your approach, despite market turbulence.

WHY DO MOST TRADERS LOSE THEIR MONEY?

- These are essential lessons that could determine your success or failure in trading.
- First, the pitfall of neglecting stop losses.
- A striking statistic reveals that more than 60% of novice traders do not use stop losses, which leads to a high risk of ruin.
- Using stop losses is one of the first measures to protect against large losses.
- Not using them in short-term trading means exposing yourself to potentially devastating losses, especially during volatile markets.
- Second, volatility and discipline in risk management.
- In unpredictable markets, a lack of discipline in risk management often leads to failure.
- Volatility can be a double weapon. It offers opportunities for significant gains, but also equally significant risks of losses. Discipline is therefore crucial.
- Successful long-term traders adopt a conservative risk management strategy.
- They stick to a risk of less than 3% of their trading capital per day.
- With this systematic approach, they are protected against inevitable setbacks and can stay in the game.
- Remember, your goal is to have enough capital to trade tomorrow and in the longer term.
- Fourth, overnight and weekend positions. The data also shows that the most profitable traders tend to avoid holding their positions overnight, thus minimizing their exposure to unforeseen events that can occur when markets are closed.
- Please note that we are talking about novice short-term traders here, i.e. traders who are mainly engaged in day trading and scalping.
- More experienced traders hedge their positions when markets are closed and know how to navigate turbulent waters.
- The advice given at the end of this study, for those who are getting into real trading, is to go slowly, to make sure that every trade you make is calculated, that you are compensated for the risk you take and to keep these risks as low as possible.
- Conclusion: trading is a marathon, not a sprint.
- Everyday is a new opportunity to trade and learn from your mistakes to gradually build your expertise.
- Be methodical, be patient, and most of all, be persistent.

THE QUALITIES OF A GOOD TRADER

- We will explore the traits that define the most effective traders and how you can cultivate these qualities to improve your performance.
- A trader must be rational and logical.
- The basis of all good trading is rational and logical thinking.
- A rational thinker understands probabilities and uses this understanding to make informed decisions. Conversely, an irrational thinker may be deceived by chance, seeing patterns where there are none.
- As a trader, you must develop the ability to distinguish between real market signals and random noise that can mislead you.
- Markets may behave irrationally at times, meaning that adopting a rational and logical approach may result in short-term losses.
- In situations where emotions dictate market behavior, it may be wise to understand those emotions and adopt a seemingly irrational approach if it helps to take advantage of that irrationality.
- Traders are opportunists. Successful short-term traders are those who recognize an opportunity and react quickly and decisively.
- They are not afraid to jump at an opportunity when it presents itself, but they always do so with prior analysis and not on a whim.
- Short-term trading also requires total concentration, so you need to be attentive.
- This means that all other interactions, whether human or technological, must be minimized in order to fully focus on market movements.
- Every decision, every click can have significant consequences.
- Finally, a trader is someone who is patient.
- Patience is an essential quality in short-term trading.
- Think of a shooter waiting for the perfect opportunity before shooting.
- A good trader does the same, integrating his own analysis, those of other market participants and the signals of the market itself.
- The patience, combined with constant vigilance will allow you to seize the right moment to enter and exit the market with precision.
- To excel at short-term trading, you need to balance your thinking and your action.
- Be rational and logical in your approach to probabilities and risks.
- Be opportunistic, but not impulsive.
- Identify a real opportunity and act on it.
- Stay attentive, minimize distractions, and be fully present when trading.
- And above all, be patient.
- Wait for the right opportunities and be ready to act when they arise.
- It is by cultivating these qualities and integrating them into your trading strategies that you will be able to achieve your primary goal.

- Survive in the long term and not squander your capital.

THE PROS AND CONS OF SHORT-TERM TRADING

- Why trade futures? We will examine the advantages and disadvantages of short-term trading.
- Understanding at this point is crucial in determining whether this approach fits your trading style and financial goals.
- Let us start with the benefits. One of the greatest advantages of short-term trading is the ability to end the day flat, that is, without an open position.
- This eliminates the risk associated with events that may occur outside of market hours, such as unforeseen economic news or fluctuations in international markets.
- This allows you to not think about positions when you go to bed.
- Additionally, short-term trading provides almost immediate feedback on your trading decisions.
- You quickly see if your analysis was correct and you can adjust your strategy accordingly without waiting weeks or months.
- Another significant advantage is freedom. You do not have to stay in the market.
- If conditions are not favorable, you can choose not to trade.
- When you do decide to trade, you can often enter and exit the market with ease, giving you great flexibility in managing your capital.
- One of the advantages of being a novice short-term trader is that you will not be moving the market with your positions and you will not have any influence on the market.
- Large institutions do not have this advantage and must conceal their purchases and sales over several days.
- However, short-term trading is not without its drawbacks.
- You may not benefit from the large market movements that can occur over longer time frames, since you are not holding open positions for very long.
- Stops are also much more frequent.
- You may need to exit a position quickly to limit losses, which can happen several times during a trading day.
- Transaction fees can add up quickly in short-term trading due to the high number of trades being made.
- Every purchase and sale carries costs that can eat into your profits or compound your losses.
- Finally, stress is an important consideration to take into account.
- While some short-term traders may find it manageable, the need for constant vigilance and quick decision-making can be tiring in the long run.
- This requires strong emotional resilience and an ability to maintain focus without being overwhelmed by pressure.
- So short-term trading has its advantages and disadvantages.

- It is important to weigh them against your own risk tolerance, ability to manage stress, and financial goals.
- While some find that the pros clearly outweigh the cons, for others the opposite may be true.

GLOSSARY

FINANCIAL ASSET - a contract that can be traded or negotiated on a financial market and has monetary value

- The five main financial assets are stocks, bonds, currencies, commodities, and crypto.
- Then there are derivative products such as futures, options, and swaps.
- These financial assets can be traded on exchanges or over-the-counter markets.
- The advantage of using financial assets for investing and trading is the speed with which they can be converted into cash.
- For example, it would be possible to buy and sell Nestle shares during the Cash session.
- Cash session refers to the period of regular trading in financial markets where it would be possible to buy and sell stocks, bonds, currencies, and commodities with immediate delivery.
- These official stock market opening and closing hours vary by exchange and geographic region.
- For example, in Europe, the Cash session on stock exchanges such as Euronext or Deutsche Boerse runs from 9 am to 5:30 pm local time, Monday through Friday, excluding public holidays.
- For the New York Stock Exchange, the Cash session runs from 9:30 am to 4:00 pm local time.
- Then you have the Globex session. The Globex session refers to a specific period for trading on the CME futures markets that allows the trader to buy and sell outside of the Cash session hours.
- The Globex session operates 23 hours a day from Sunday to Friday.
- The advantage of the Globex session is that it allows traders from all over the world to trade futures contracts, regardless of their time zone.
- Which brings us to the concept of intraday, which is very important for us short-term traders.
- An intraday is a transaction carried out during one day. This means that the trader wll open and close his position in the markets within the same day.
- An intraday trader seeks to profit from short-term price movements by using day trading and scalping strategies.
- To assess the price variation of an asset, we often talk about ticks and points.
- A tick refers to the smallest possible change in the price of a financial asset.
- The size of a tick can vary depending on the financial asset you are trading.
- In the Forex market, a tick is often referred to as a pip and represents the fourth decimal place of the exchange rate.

- For us futures traders, a tick represents the smallest possible change in the price of the futures contract.
- The notion of point is used to describe a price movement of an integer.
- For the SP500, since each tick represents a movement of .25, four ticks make up 1 point. So, if the E-MINI SP500 futures contract moves from 5195 to 5200, then the futures contract has moved up 5 points or 20 ticks.
- For the Bund, 100 ticks makes up a point, since the tick size is 0.01. So if the Bund moves from 131 to 132, it will have increased by 1 point or 100 ticks.
- To understand what is happening at the micro level, the order book is one of the best tools.
- In trading, the order book is a real-time tracking of all purchase and sale contracts for a specific financial asset.
- The order book tells us how much of a financial asset a trader is willing to buy or sell at a given price.
- Order flow in trading refers to the real-time monitoring and analysis of pending and executed orders in financial markets, reflecting traders' intentions.
- Analyzing order flow can help traders make trading decisions by providing them with information about market dynamics.
- For example, a strong accumulation of buy orders at a specific price level may indicate potential support, while a strong accumulation of sell orders may signal potential resistance.
- Executed orders or market orders are indicated in red and blue in the middle of our order book.
- It is the interaction of these executed orders with the pending orders in the order book that will determine the price trajectory.
- Delta is the difference between buyers and sellers in the market, that is, the difference between the blue and red numbers in the middle of our order book.
- So, a positive delta at a given price level tells us that there are many more buyers than sellers at that price, and yet the price could go up.
- A candlestick is just a visual representation of an asset's price movement over a given period of time. They are used to visualize price fluctuations over time.
- A candlestick is made up of three main parts; the body, which represents the range between the opening and closing price, and the wicks, which are found below and above the body of the candlestick and indicate the high and low during a given period.
- Talking about the highs and lows of candlesticks can help us explain the concept of range.
- The range is just a range of specific prices over a defined period of time.
- When we talk about the daily range, we are referring to the difference in ticks or points in price between the daily high and low.

- Going long in the financial market refers to a trade in which a trader buys an asset in expectation of a price increase, and conversely, going short refers to a position where a trader sells in expectation of a price decrease.
- In cash markets, when a person is short on a financial asset, they borrow this asset as a counterparty and sell it on the markets with the expectation of a price drop and the obligation to buy back this asset to return it.
- The difference between the initial sale price and the buyback price represents the trader's potential profit, less transaction costs and interest on the loan.
- For us, futures traders, short selling does not mean borrowing financial assets.
- Just keep in mind that selling a contract is just a bet on short-term price declines.
- We can now look at concepts of liquidity and spread.
- Liquidity and illiquidity in trading refer to the ease or difficulty with which a financial asset can be bought or sold in markets without significantly affecting its price.
- A large number of buy and sell orders positioned at each price level, which allows large orders to be executed with minimal impact.
- In contrast, in an illiquid market, large trades may be difficult to execute without significantly affecting the price.
- Illiquid markets are often more volatile and have higher daily ranges.
- Another big difference between liquid and illiquid markets is the spread.
- The spread in trading refers to the difference between the buy price and the sell price of a financial asset.
- The spread essentially represents the cost of the transaction for the trader.
- When the spread is narrow, it means that the difference between the buy and sell price is small, which is generally favorable for the trader, as he can buy and sell assets at prices close to each other without losing a lot of money.
- On the other hand, when the spread is wide, it means that the difference between the buy and sell is wider, making it more difficult to buy and sell immediately without losing a considerable amount of money.
- A lot represents the standardized size of a specific futures contract.
- For example, in the oil futures market, 1 lot or 1 contract represents 1000 barrels of oil.
- Market makers are companies paid by exchanges to constantly provide buy and sell offers, ensuring liquidity and price stability. This is usually done by algorithms.
- Sometimes the order book contains large buy and sell orders that can have a significant impact on the market.
- A larger order at support may signal that there is a large institution ready to defend a price level.
- When this large order is executed, it is wise to wait for the market reaction.

- Many traders will use these large orders to get in front to scalp a few ticks, as when these are executed they can cause some volatility in the market. This concept is called front running.
- A gap is simply a discontinuous jump in the price of a financial asset between the close of the previous period and the opening of the next period, without there having been any transactions between these levels.
- Traders call the difference in price between yesterday's closing price and today's opening price the "overnight gap."
- Some traders consider a true gap not only to be a price jump between yesterday's closing price and today's opening price, but also that these gaps must exceed the previous day's high or low.
- We will consider partial gaps as price openings higher or lower than the previous day's close, but within yesterday's range.
- We will consider full gaps as prince openings higher or lower than the previous day's close and also outside of yesterday's range.
- Traders will find these gaps interesting because they can provide indications of the future direction of the market and offer trading opportunities.
- In day trading and scalping, a drawdown refers to the temporary reduction of trading capital from its previous level.
- Suppose a trader places a buy trade and the market subsequently falls, the trader will be in a drawdown, or unrealized loss, until the position is closed with a profit or loss.
- When we talk about a drawdown of a trading account or portfolio, we normally refer to the decrease in trading capital from its previous highest level.
- This is an important metric for evaluating the performance of a trader or trading system as it shows the period during which the account has suffered losses.
- More precisely, the drawdown is calculated as the difference between the account peak, the highest level reached, and the account trough, the lowest level reached.
- For example, if the capital of a trading account reaches a peak of 10,000 francs and then falls to a low of 9000 francs, the drawdown will be 10%.
- In trading, squeeze refers to a pattern of decreasing volatility that will precede a significant price movement in an upward or downward direction, resulting in increased volatility.
- A short squeeze occurs when there is a sharp rise in the price of an asset, forcing traders who initially sold to close their position by buying the asset to cover their losses.
- This puts additional upward pressure on the price, as buying to cover short positions helps push the price up even faster.
- This closing of short positions often results in increased volatility.
- It is important to note that over the past 20 years, central bank decisions have had and continue to have a significant impact on financial markets.

- The terminology used by traders to describe central banks is FED, which stands for Federal Reserve, the US central bank, and ECB, which stands for the European Central Bank.
- Hedging, in trading, refers to a hedging strategy used by investors and traders to reduce or offset the risk of loss.
- The idea of hedging is to take a secondary position that is inversely correlated to the primary position.
- This means that if the main position suffers a loss, the hedge position can generate a gain that partially or fully offsets this loss.
- High-frequency trading has experienced real growth. HFT involves using algorithms to make large numbers of trades in very short time intervals. We are talking about milliseconds or microseconds.
- HFT traders exploit tiny price deviations that can occur in milliseconds or less.
- They use sophisticated computer systems to detect these trading opportunities and execute orders at high speed.
- Trading servers are located close to exchanges to reduce data transmission delays.
- High-frequency trading is often controversial. Critics point out that HFT can create artificial volatility. However, its proponents argue that HFT provides liquidity to markets by reducing transaction costs in financial markets, which benefits investors and traders in general.
- Leverage is the use of borrowed funds to increase the profit potential of a trade.
- Leverage is usually expressed as a ratio, such as 10:1, 50:1, 100:1, which represents the multiple by which the trader's capital is increased through borrowing.
- For example, with 100:1 leverage, a trader can control a $100,000 position with only $1,000 of capital.
- Leverage is widely used in derivatives markets, such as futures, options, and CFDs.
- Leverage can magnify both the profits and losses of a trade.
- You also have here the concept of margin in trading, which refers to the amount of capital needed to open and maintain a position in the financial markets.
- They represent the minimum amounts required by brokers or intermediaries to ensure that the trader can cover the potential losses of a trade.